

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-10 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

USIA-15 DRC-01 /188 W

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R 261745Z FEB 74

FM AMEMBASSY ROME

TO SECSTATE 3452

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

US MISSION EC BRUSSELS

US MISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ENRG, IT

SUBJ: ENERGY: PROBLEMS OF DOMESTIC COMPANIES

REF A) ROME 2156 B) ROME 2262 C) ROME 2512

1. SUMMARY: WE HAVE BEEN IN CONTACT WITH SEVERAL AMERICAN COMPANIES IN

CONNECTION WITH THE CURRENT OIL SCANDAL (REF A) AND THEIR DIFFICULTIES ON PRICES (REFS B AND C). THE OIL SCANDAL IS HAVING SERIOUS EFFECTS ON COMPANY MORALE AND POTENTIALLY ON THEIR ABILITY OPERATE. THE FEB 20 PRICE ADJUSTMENTS ARE BARELY ADEQUATE FOR THE LOWEST COST IMPORTERS (PARTICULARLY ESSO) AT PRESENT CRUDE COSTS BUT MAKE NO LIMITED OFFICIAL USE

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PROVISIONS FOR RETROACTIVE PRICE ADJUSTMENTS FOR PARTICIPATION

CRUDE. ENI IS TAKING FINANCIAL DRUBBING. END SUMMARY.

2. SUMMONS FOR HEADS ALL OIL COMPANIES HAVE BEEN SERVED ADVISING THEM THAT THEY MAY BE CALLED TO TESTIFY ON CRIMINAL CHARGES OF CONSPIRACY AND BRIBERY AND INSTRUCTING THEM TO NAME DEFENSE ATTORNEYS. UNDER ITALIAN LAW, IF AGGREGATE PENALTY CRIMINAL CHARGES CITED EXCEEDS CERTAIN CEILING, PREVENTIVE DETENTION IS MANDATORY. THE COMPANIES FEAR THAT UNCOORDINATED WARRANTS BY GENOA AND ROME LEGAL AUTHORITIES COULD LEAD TO JAILING SOME EXECUTIVES. ONE SENIOR OFFICIAL OF ESSO, CARLO CITTADINI, IS NOW IN PRISON IN CONNECTION WITH HIS SUSPECTED ACTIVITIES WITH THE PETROLEUM ASSOCIATION (UNIONE PETROLIFERA). CITTADINI, DESCRIBED BY PRESS INCORRECTLY AS FORMER PRIVATE SECRETARY TO VINCENZO CZZANIGA, WAS IN CHARGE OF GOVT RELATIONS FOR ESSO. ESSO HAS MANAGED HIS ADMITTANCE TO PRISON INFIRMARY.

3. JUDICIAL AUTHORITIES APPEAR TO BE ENGAGED IN FISHING EXPEDITION, CASTING NETS WIDE IN HOPE OF FINDING SOMETHING. JUDICIARY SEEMS TO BE COORDINATING WITH PRESS IN UNPRECEDENTED WAY. SENIOR OFFICIAL MINISTRY INDUSTRY (RISTAGNO) TOLD US OF HIS AMAZEMENT IN LEARNING FROM MORNING PAPERS THAT JUDICIAL POLICE WOULD BE CALLING ON HIS MINISTRY LATER IN THE DAY. RISTAGNO AND COMPANY OFFICIAL COMMENT THAT JUDICIAL PROCEEDINGS ARE CAUSING GREAT UNCERTAINTY AND MORALE PROBLEMS FOR EXECUTIVE LEVEL PERSONNEL, WHO WONDER IF THEY MIGHT BE INADVERTANTLY IMPLICATED. PARALYSIS IN OIL SECTOR IS GENERALIZED.

4. WHILE PRICE INCREASE GRANTED FEB 20 IS SUBSTANTIAL, COMPANY OFFICIALS TELL US IT FALLS SHORT OF THEIR ESTIMATES. NEW PRICE SCHEDULES BASED ON ASSUMED IMPORT PRICE OF CRUDE OF 49 THOUSAND LIRE PER METRIC TON. PETROLEUM ASSOCIATION HAS ASKED 65 THOUSAND. ESSO AND GULF TELL US THAT GOI PRICING FORMULA ALLOWS COMPANIES WITH LOWEST CRUDE PRICES (E.G., ESSO WITH LANDED PRICE SLIGHTLY UNDER \$10.) AND EFFICIENT INTERNAL OPERATIONS TO MAKE MONEY BUT WITHOUT COMPENSATING FOR JAN 1-FEB 20 LOSSES (ESSO LOST ABOUT \$40 MILLION). FOR OTHERS, SITUATION IS MORE DIFFICULT. OUR SOURCES ESTIMATE THAT ENI WILL CONTINUE TO INCUR LOSSES, ADDING TO MASSIVE DEFICITS INCURRED SINCE OIL PRICES BEGAN TO RISE. EVENTUAL EFFECT, ACCORDING TO OUR SOURCES, WILL BE TO LIMIT STATE COMPANY'S FREEDOM MANEUVER WHEN EVENTUALLY IT WILL HAVE TO GO TO PARLIAMENT FOR FINANCIAL REPLENISHMENT. US MAJORS FACE PROBLEM OF EVENTUAL RETROACTIVE (TO JAN 1) LIMITED OFFICIAL USE

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PRICES PARTICIPATION CRUDE NOW UNDER NEGOTIATION. BUDGET MINISTER GILOITTI (SOCIALIST) HAS TOLD THEM THAT GOI WILL CONSIDER FURTHER PRICE INCREASES WHEN AND IF CRUDE PRICES GO UP, BUT IN VIEW PAST DELAYS COMPANIES ARE TAKING LITTLE COMFORT THESE ASSURANCES.

5. CURRENT PETROLEUM SCANDAL INVESTIGATION IS CONTINUING ALONG FOLLOWING THREE TRACKS: 1) LEGISLATION SINCE 1967 WHICH ALLEGEDLY FAVORED THE OIL COMPANIES; 2) ALLEGED PAYMENTS BY COMPANIES THROUGH

ENEL (STATE ELECTRICITY AGENCY) TO POLITICAL PARTIES TO FAVOR FUEL
BURNING ELECTRIC POWER STATIONS; AND 3) ALLEGEDLY MISLEADING SUPPLY
INFO AND ILLEGAL STOCKPILING BY COMPANIES IN RECENT MONTHS TO
FORCE PRICE INCREASES. IT SEEMS INCREASINGLY PROBABLE THAT THE
VARIOUS INVESTIGATIONS WILL ALL CONVERGE INTO THE HANDS OF A
PARLIAMENTARY COMMITTEE WHICH HAS BEEN ACTIVATED BECAUSE OF POSSIBLE
INVOLVEMENT OF PRESENT AND FORMER GOVERNMENT MINISTERS(ROME 2586
NOTAL). THE COMMITTEE IS SCHEDULED TO HOLD ITS SECOND MEETING
MARCH 1, AT WHICH TIME A DECISION MAY BE TAKEN TO ASSUME RESPONSI-
BILITY FOR THE OVERALL INVESTIGATION. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTS, ECONOMIC PROGRAMS, PRICE CONTROLS, RATIONING, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME07230
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974028/aaaaahqy.tel
Line Count: 125
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A) ROME 2156 B) ROME 2262 C) ROME 25, 12
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 02 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 APR 2002 by elyme>; APPROVED <03 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: PROBLEMS OF DOMESTIC COMPANIES
TAGS: ENRG, IT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005